

## Chapter 16 – Section A “Due Diligence”

Due diligence is performed in case of corporate restructuring to check whether it is advisable to acquire, merge, invest etc.

### Area in which due diligence can take place

1. Commercial/Operational due diligence
2. Financial Due Diligence
3. Tax Due diligence
4. Information Systems due diligence
5. Legal due diligence
6. Environmental due diligence
7. Personnel due diligence

### Aspects to be covered in Financial Due diligence

1. Studying the Business History
2. Significant Accounting Policies
3. Examining Profit and Loss Account
4. Examining Net worth
5. Payment of Taxes
6. Studying the Economic environment
7. Evaluation of Cash Flow
8. Examine Financial Projections
9. Evaluate Human Resources
10. Examine Statutory Compliance

### Work Approach to Due Diligence

1. Reviewing & reporting on the financials submitted by the target company.
2. Assessing the business by a site visit (if applicable).
3. Working through due diligence process with the acquisition company or investor by defining the key areas.
4. Prepare an offer based on completion of due diligence.

### Conducting Due Diligence

- |          |  |
|----------|--|
| <b>1</b> | <b>Pre-Due Diligence Period</b> <ul style="list-style-type: none"> <li>• Discussion with client to gain understanding.</li> <li>• Assessment of most appropriate scope of work.</li> <li>• Centralized coordination of project team.</li> <li>• Preparation of due diligence request list.</li> </ul>  |
| <b>2</b> | <b>Diligence Process &amp; Negotiation Process</b> <ul style="list-style-type: none"> <li>• Working Off-site or on-site.</li> <li>• Flexible approach even after project kick-off.</li> <li>• Q &amp; A Process with management.</li> <li>• Report drafting.</li> <li>• Support for preparation of negotiation terms.</li> <li>• Regular updates with the client.</li> </ul> |
| <b>3</b> | <b>Closing and Post Closing process</b> <ul style="list-style-type: none"> <li>• Preparation of review of closing documents prepared by the Target.</li> <li>• Review of other post-closing transactions review.</li> <li>• Involvement of Price adjustment procedures using the findings of due diligence.</li> </ul>   |

### Contents of due diligence Report

1. Executive summary.
2. Introduction.
3. Objective of due diligence.
4. Terms of reference.
5. Brief history of the company.
6. Summary on capital structure & group structure of company.
7. Shareholding pattern.
8. Observations on the review.
9. Assessment of Mngt. structure.
10. Assessment of financial liabilities.
11. Assessment of valuation of assets.
12. Assessment of operating results.
13. Assessment of tax & other liabilities.
14. Assessment of possible liabilities on account of litigation.
15. Assessment of net worth.
16. Any liabilities not provided for in the books.
17. SWOT analysis on future projections.
18. Status on charges, liens, mortgages and assets of the company.
19. Ways & means to cover unforeseen contingent liabilities.
20. Aspects to be taken care of before/after merger.
21. Interlocking investments and financial obligations with group companies.

### Areas of Hidden Liabilities

1. SCN, which have not matured into demands.
2. Contingent liabilities not shown in books.
3. Product & warranty liabilities, product returns, discounts, etc.
4. Tax liabilities
5. Pending Tax assessment.
6. Agreement to buy back shares at a stated price.
7. Future lease liabilities.
8. Claims against the company.
9. Unfunded retirement benefit of employees.

### Areas of Overvalued Assets

1. Uncollectable receivables.
2. Obsolete, slow and non-moving inventories.
3. Obsolete and unused plant and machinery and their spares.
4. Assets shown in books above market value.
5. Assets under litigation.
6. Investment shown at cost whose M.V. is much lower.
7. Investment carrying very low rate of return.
8. Intangibles of no value.

## Section B "Investigation"

### MEANING OF INVESTIGATION

Systematic, critical and special examination of records of a business for a specific purpose

### STEPS IN INVESTIGATION

1. Determination of Objective & establishment of Scope
2. Drawing up Investigation Programme.
3. Collection of Evidences.
4. Analysis & Interpretation of finding.
5. Reporting of Findings.

### Considerations while preparing Report

1. The report should not contain anything which is not relevant.
2. Expressions used should be properly considered to avoid any ambiguity.
3. Relevant facts and conclusions should be properly linked.
4. Bases and assumptions made should be explicitly stated.
5. Nature & objective of the assignment should be clearly mentioned.
6. Report should be made in paragraph with headings for the paragraphs.
7. Restrictions or limitations, imposed if any should be specified.
8. Opinion should appear in the final paragraph of the report.

### SPECIAL ISSUES IN INVESTIGATION

#### 1. Extent of Investigation

- Depends on circumstances.
- It may be 100% verification or selective.
- If selective, use statistical sampling.

#### 2. Reliance on Audited F.S.

- Depends on circumstances.
- No reliance if investigation carried out because of doubt in audited accounts.
- Otherwise, investigator is entitled to rely on audited accounts.

#### 3. Assistance of Expert

- Obtain consent of the client.

#### 4. Investigation out of disputes

- Be alert for prejudiced information.
- Keep in mind interest of all parties.
- Exercise best of skills

#### 5. Basis of Opinion

- Opinion should be confined to established facts only.
- If the facts are not capable of being properly established, express qualify opinion.

#### 6. Futuristic Statements

- Assumption may be taken as to continuity of established trends.
- But no projection should be made for trends in future

#### 7. Retention of Working Papers

- Retain all working papers.
- Papers give evidence in court to support the report.

### Types of Investigation

Statutory	Non-Statutory
As an inspector under the provisions of Companies Act, 2013. <ol style="list-style-type: none"> <li>1. Investigation into the affairs of a company and</li> <li>2. Investigation of ownership of a company.</li> </ol>	<ul style="list-style-type: none"> <li>• Investigation on behalf of an incoming partner.</li> <li>• Investigation for valuation of shares in private companies.</li> <li>• Investigation on behalf of bank proposing to advance loan to a company.</li> <li>• Investigation of frauds.</li> <li>• Investigation on behalf of a person proposing to buy a business.</li> </ul>

Scope and Extent of Investigation Under Companies Act, 2013	General Approach for Investigation u/s 210 & 213
<ul style="list-style-type: none"> <li>• When a CA is appointed to carry out an investigation u/s 210, 213 or 216 of Companies Act, 2013, the scope and extent of enquiry, the objective of the investigation and other matters asked for investigation are specified in the order of investigation issued by the appointing authority.</li> <li>• On the basis of terms of investigation, the investigating accountant should determine the areas of accounts to be investigated and the extent to which the enquiry is to be made.</li> </ul>	Investigation under Sections 210 and 213 do not call for any special approach. The general approach for investigations should, therefore, be formulated having regard to the terms of reference, scope, period, programme and procedure of the investigation & legal requirements and will comprises of: <ol style="list-style-type: none"> <li>1. Clarity of Terms of Reference</li> <li>2. Determination of scope of Investigation</li> <li>3. Determination of period for investigation</li> <li>4. Framing of Programme</li> <li>5. Using the work of Experts</li> <li>6. Ensure compliance of Legal requirements and issue of investigation Report</li> </ol>

## INVESTIGATION UNDER COMPANIES ACT 2013

### Investigation into affairs of company – Sec. 210

CG	may	→	Order an investigation into affairs of the company ↓ On receipt of a report of Registrar/Inspector u/s 208 Or On intimation of a Special resolution passed by company in this regard Or In public interest.
CG	shall	→	Order an investigation into affairs of a company ↓ Where an order is passed by a Court or Tribunal in this regard
CG	may	→	Appoint one or more persons ↓ as inspectors ↓ who report to CG ↓ in manner as directed by CG.

### Investigation into affairs of company by SFIO – Sec. 212

CG may, by order assign investigation into affairs of a company to ↓ SFIO (Serious Fraud Investigation Office) ↓ On receipt of a report of Registrar/Inspector u/s 208 Or On intimation of a Special resolution passed by company in this regard Or In public interest Or On request from any Department of CG/SG	
Director, SFIO	may designate such number of inspectors ↓ as he considers necessary for investigation.
SFIO	Shall conduct the investigation ↓ In prescribed manner ↓ And submit its report to CG within period specified in order

### Investigation into affairs in other cases – Sec. 213

Tribunal may on application of ↓	
Specified number of Members	Any Other person
Company having Share Capital	≥100 Members or Members holding ≥ 1/10 <sup>th</sup> of Total Voting Power
Company having no Share Capital	1/5 <sup>th</sup> of Total Members  If satisfied that: Business of company is being conducted with intent to defraud Or Promoters / Mngt. being guilty of fraud or misconduct towards the company Or Members not being provided with required information
↓	
After giving a reasonable opportunity of being heard to concerned parties ↓	
Order for the investigation into affairs of the company ↓	
By an inspector appointed by CG.	

### Investigation into Ownership of company – Sec. 216

CG may appoint one or more Inspectors ↓ To investigate and report ↓ For purpose of determining the true persons ↓ Who are or have been financially interested in the success or failure of the company Or Who are or have been able to control or materially influence the policy of the company Or <b>who have or had beneficial interest in shares of a company or who are or have been beneficial owners or significant beneficial owners of a company.</b>
CG may define the scope of investigation w.r.t. matters/period /particular shares or debentures
Powers of Inspector extended to investigation of any circumstances suggesting the existence of any arrangement which is relevant for investigation.

# POWERS OF INSPECTORS & REPORT OF INSPECTOR ON INVESTIGATION UNDER COMPANIES ACT 2013

## Procedures, Powers etc. of Inspectors - Sec. 217

<b>Production of documents</b>	<ul style="list-style-type: none"> <li>Officers, Employees and agents of the company should produce all book and papers and provide necessary assistance.</li> <li>With the previous approval of CG, inspector may require information of any other body corporate.</li> <li>Inspector may detain the books for 180 days.</li> </ul>
<b>Examine on Oath</b>	<ul style="list-style-type: none"> <li>Inspectors may examine Officers, employees and agents of company or related companies on oath.</li> <li>Previous approval is required to examine any other person.</li> </ul>
<b>Powers of Civil Court</b>	<ul style="list-style-type: none"> <li>Discovery &amp; production of books &amp; other documents at such place &amp; time as specified.</li> <li>Summoning and enforcing attendance of person and examine them on oath.</li> <li>Inspection of any books, registers &amp; other documents at any place.</li> </ul>

## Investigation into affairs of related companies - Sec. 219

With the prior approval of CG,  
↓  
inspector may also investigate the affairs of following:  
↓

- any body corporate which is/has at relevant time been the subsidiary or holding or another subsidiary of same holding of company under investigation.

or

- Any body corporate which is/has at relevant time been managed by any person as MD or Manager who is the MD or Manager of company under investigation.

or

- Any body corporate whose BOD comprises nominees of company under investigation.

or

- Managing Director, Manager or employee of company under investigation.

## Seizure of documents - Sec. 220

If Inspector has reasonable grounds  
↓  
That books & papers of company / other body corporate/MD/Manager  
↓  
are likely to destroyed  
↓  
the inspector may  
↓  
enter into places where these books are kept with required assistance  
And  
Seize the books and papers after allowing the company to take copies of such books.  
↓  
Such books and papers may be kept by inspector  
↓  
for such period not later than the conclusion of the investigation.

## Inspector's Report - Sec. 223

Inspector  
↓

May/shall	shall
Submit	Submit
Interim Report	Final Report
To CG	To CG
When required	On conclusion of investigation

↓  
Report shall be in writing or printed as CG may direct.  
↓  
Report may be obtained by making an application to CG  
↓  
The report shall be authenticated  
↓  
by seal of the company whose affairs have been investigated  
or  
by certificate of a public officer

## Non-Statutory Investigations

### Investigation on behalf of incoming partner

- (a) Ascertaining the **history of the firm** since inception and growth of the firm.
- (b) Studies of the provisions of the **Deed of Partnership**, particularly for composition of partners, their capital contribution, drawing rights, retirement benefits, job allocation, etc.
- (c) Scrutiny of the **record of profitability** of the firm's business over a suitable number of years
- (d) Examination of the **asset and liability position** to determine the tangible asset, investment, appraisal of the value of intangibles like goodwill, know-how, patents, etc. including contingent liabilities and those for pending tax assessment.
- (e) Assess **position of order at hand** and the range and quality of clientele should be thoroughly examined under which the firm is presently operating.
- (f) Scrutinize **terms of loan finance** to assess its usefulness and the implication for the overall financial position.
- (g) Study important **contractual and legal obligations**. It may be the case that the firm has standing agreement with the employees as regards salary and wages, bonus, gratuity and other incidental benefits.
- (h) Study the **composition and quality of key personnel** employed by the firm and any likelihood of their leaving the organisation.
- (i) Ascertain **reasons for the offer of admission** to a new partner and it should be determined whether the same synchronizes with the retirement of any senior partner whose association may have had considerable impact having on the firm's successes.
- (j) Appraisal of the **record of capital employed and the rate of returns**. It is necessary to have a comparison with alternative business avenues for investments.
- (k) Ascertain **manner of computation of goodwill** on admission as also on retirement, if any.
- (l) Examine whether any **special clause** exist in the Deed of Partnership to allow admission in future a new partner.

### Investigation on behalf of Bank for advances

- |   |   |
|---|---|
| 1 | <b>Collection of Information</b>  |
|   | Investigator is required to collect the information w.r.t. <ul style="list-style-type: none"> <li>• <b>Purpose</b> for which the loan is required</li> <li>• Manner in which the borrower proposed to invest the amount of the loan.</li> <li>• <b>Schedule of repayment</b> of loan submitted by the borrower, particularly, the assumptions made therein as regards amounts of profits that will be earned in cash and the amount of cash that would be available for the repayment of loan to confirm that they are reasonable and valid in the circumstances of the case.</li> <li>• <b>Financial standing and reputation</b> for business integrity enjoyed by the directors and officers of the company.</li> <li>• <b>Authorisation</b> under Memorandum or the Articles of Association to borrow money for the purpose for which the loan will be used.</li> <li>• <b>History of growth and development</b> of the company and its performance during the past five years.</li> </ul> |
| 2 | <b>Examination of F.S.</b>  |
|   | Examination of financial statement involves: <ul style="list-style-type: none"> <li>• Preparation of a condensed income statement</li> <li>• Computation of Relevant Ratios</li> <li>• Break-up of annual sales</li> <li>• Schedule of assets and liabilities</li> </ul>  |

### Investigation of Frauds

#### TYPES OF FRAUDS

- |   |  |
|---|--|
| 1 | <b>Fraud for personal Gain</b>   |
|   | <ul style="list-style-type: none"> <li>• Bribery</li> </ul>  |
| 2 | <b>Corporate Frauds/ Irregularities</b>  |
|   | <ul style="list-style-type: none"> <li>• Advance Billing</li> <li>• Shell/ Dummy Company Schemes</li> <li>• Money Laundering Activities</li> </ul>   |
| 3 | <b>Fraud at Operational Level Employees</b>  |
|   | <ul style="list-style-type: none"> <li>• Tampering of Cheques/Drafts/On-line payments/ receipts</li> <li>• Off Book Frauds</li> <li>• Cash Misappropriation</li> <li>• Teeming and Lading</li> <li>• Fraudulent Disbursements</li> <li>• Expense Reimbursement Schemes</li> <li>• Payroll Fraud</li> <li>• Commission Schemes</li> </ul> |



## Investigation of Frauds

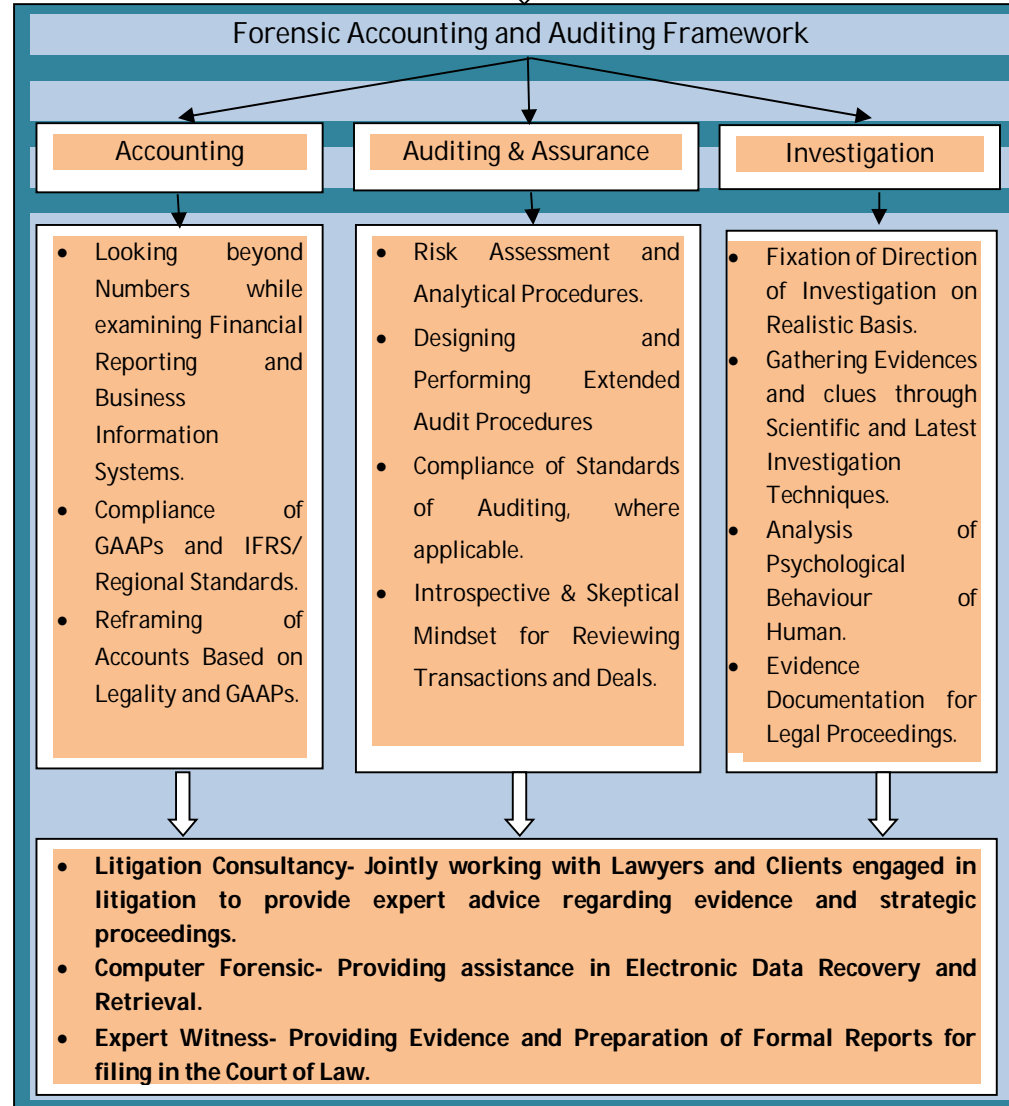
	Ways of Committing Frauds	Means of Investigation
<b>Cash receipts</b>	<ul style="list-style-type: none"> <li>(i) Issuing a receipt for full amount collected, entering lesser amount on counterfoil.</li> <li>(ii) Showing a larger cash discount than actually allowed.</li> <li>(iii) Adjusting a fictitious credit in the account of a customer for goods returned.</li> <li>(iv) Cash sales entered as credit sales with debit to customer.</li> <li>(v) Writing off a good debt as bad &amp; irrecoverable to cover up misappropriation of amount collected.</li> <li>(vi) Short-debiting customer's ledger account and withdrawing the difference on collection of full amount.</li> <li>(vii) Under-casting the receipts side of cash book.</li> <li>(viii) Over-casting the payment side of the cash book.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Ascertain nature of duties of person who is suspected to have committed a fraud.</li> <li>(ii) Examine line of responsibility among the various members of the staff.</li> <li>(iii) Income received from different sources should be scrutinized.</li> <li>(iv) Carbon copies of receipts marked 'duplicate' should be scrutinized.</li> <li>(v) Examining record of small or negligible sources of income such as sales of scrap or sale of waste paper.</li> <li>(vi) Review of recoveries from customers and sundry parties along with deductions on account of cash discounts.</li> <li>(vii) Examine that receipts are serially numbered and all receipts have been accounted for.</li> <li>(viii) In case of cancelled receipt, its original copy should be examined and verified.</li> <li>(ix) Enquiries should be made for unreasonable cash discount.</li> </ul>
<b>Cash Payments</b>	<ul style="list-style-type: none"> <li>(i) Making double payment of an invoice or paying a false invoice.</li> <li>(ii) Paying personal expenses out of the business by falsifying details.</li> <li>(iii) Withdrawing unclaimed credit balances of customers.</li> <li>(iv) Falsely adjusting a refund in the account of a customer and withdrawing the credit balance.</li> <li>(v) Wrong totalling of the wage sheets and misappropriating the excess amount withdrawn from the bank for payment of wages.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Ensure that all payments are properly authorized by competent authority.</li> <li>(ii) Acknowledgement by parties for payments has to be carefully scrutinized.</li> <li>(iii) Payment by bearer cheques requires careful examination.</li> <li>(iv) Payment as regards wages should be examined for possible over totalling of wage sheets and entries regarding dummy workmen.</li> <li>(v) Payment for goods purchased should be reviewed so as to confirm that no payment has been made in respect of supplies which have not been received.</li> </ul>
<b>Suppliers Ledger</b>	<ul style="list-style-type: none"> <li>(i) Adjusting fictitious invoices as purchases in the accounts of suppliers and subsequently misappropriating the amounts when payments are made.</li> <li>(ii) Suppressing the Credit Notes issued by suppliers and withdrawing the corresponding amounts not claimed by them.</li> <li>(iii) Withdrawing amounts unclaimed by suppliers, for one reason or another by showing that the same have been paid to them.</li> <li>(iv) Accepting purchase invoices at prices considerably higher than their market prices and collecting the excess amount, paid in cash, from the suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>(i) The Bought Journal should be vouched by reference of Goods Inward Book.</li> <li>(ii) Amounts have been correctly credited in respect of goods duly received or not.</li> <li>(iii) Request the supplier to furnish statements of their accounts to find out whether or not any balance is outstanding or due and</li> <li>(iv) Confirm that allowances and rebates given by them is correctly adjusted.</li> </ul>
<b>Customers Ledger</b>	<ul style="list-style-type: none"> <li>(i) Teeming and Lading.</li> <li>(ii) Misappropriating the amount collected from a customer and subsequently adjusting his account by crediting the amount on account of allowance or a rebate for excess price charged.</li> <li>(iii) Crediting the amount received from a customer to the account of another customer and subsequently withdrawing the amount wrongly credited.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Trace the entries in order book with the corresponding record in sales day book.</li> <li>(ii) Examine customer's account to ensure that they have been properly debited at appropriate amount.</li> <li>(iii) The amounts written off as bad debts should be carefully examined.</li> <li>(iv) Any unusual discounts given to them should be thoroughly enquired into and written representation should be obtained from appropriate authority in this connection.</li> <li>(v) Attention should be given to the teeming and leading frauds in such accounts.</li> <li>(vi) Balance confirmation from customers should be obtained.</li> </ul>
<b>Stock</b>	<ul style="list-style-type: none"> <li>(i) Employees may simply remove goods from the premises.</li> <li>(ii) Theft of goods may be concealed by writing them off as damaged goods, etc.</li> <li>(iii) Stock records may be manipulated by employees who have committed theft so that book quantities tally with the actual quantities of stocks in hand.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Physically check the quantities in stock and those shown by the stock book.</li> <li>(ii) Cross checking of good inward and outward registers along with the purchases and sales day book.</li> <li>(iii) Use of expert advice wherever required.</li> </ul>

## Section C – “Forensic Audit (New Syllabus Only)”

### Concept of Forensic Accounting and Audit

- 'Forensic' means 'suitable for use in a court of law'.
- Forensic accounting can be described as a specialized field of accountancy which investigates fraud and analyse financial information to be used in legal proceedings. Forensic accounting uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud. It encompasses both Litigation Support and Investigative Accounting.
- Forensic audit can be defined as an examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court.
- Forensic accounting does involve elaborate inquiry and investigation into the transactional typicality of the connected issues and events, the job of forensic audit is to provide a double check on the consistency issues, questions that the counsel may ask in the context of arguing in courts.

### Forensic Accounting and Auditing Framework



### Objectives of Forensic Accounting & Audit

1. To use the forensic accountant's conclusions to facilitate a settlement, claim, or jury award by reducing the financial component as an area of continuing debate
2. To avoid fraud and theft
3. To restore the downgraded public confidence
4. To formulate and establish a comprehensive corporate governance policy
5. To create a positive work environment

### Forensic Audit vs. Financial Audit

Basis	Forensic Audit	Financial Audit
<b>Meaning</b>	Examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court.	Examination of Financial Information so as to express an opinion on true and fair view of state of affairs and financial results.
<b>Objective</b>	To determine whether fraud has taken place.	To express an opinion on true and fair view.
<b>Frequency</b>	No specific period.	Generally carried out for a financial year.
<b>Techniques</b>	Investigative and substantive	Risk based with the help of compliance & substantive procedures.
<b>Extent</b>	In-depth checking.	Test Checking based
<b>Verification of Asset and liabilities</b>	Verification of suspected / selected items is done where misappropriation is suspected.	All assets and liabilities are verified with the help of audit procedures or mngt. certificate/representa-tion.

## Forensic Audit (New Syllabus Only)

### Areas of Forensic Audit

1	<p><b>Fraud Detection</b></p> <p>Area of Fraud detection comprises of:</p> <ul style="list-style-type: none"> <li>Investigating and analyzing financial evidence.</li> <li>Detecting financial frauds</li> <li>Tracing misappropriated funds.</li> </ul>
2	<p><b>Fraud Prevention</b></p> <p>Area of fraud prevention comprises of:</p> <ul style="list-style-type: none"> <li>Reviewing internal controls to verify their adequacy</li> <li>Providing consultation in the development and implementation of an internal control framework aligned to an organization's risk profile</li> </ul>
3	<p><b>Computer Forensics</b></p> <p>Area of Computer forensics comprises of developing computerized applications to assist in the recovery, analysis and presentation of financial evidence.</p>
4	<p><b>Expert Testimony</b></p> <p>Area of Expert testimony comprises of</p> <ul style="list-style-type: none"> <li>Assisting in legal proceedings,</li> <li>Testifying in court as an expert witness</li> <li>Preparing visual aids to support trial evidence.</li> </ul>

### Process of Forensic Audit

#### Step 1 - Initialisation

#### Step 2 – Planning the audit

#### Step 3 – Collection of Evidences

#### Step 4 – Performing Analysis

#### Step 5 – Reporting

#### Step 6 – Court Proceedings

### Techniques of Forensic Audit

<b>Benchmarking</b>	Comparing one financial period with another or the performance of one cost centre, or business unit, with another, overall business performance with its standards defined.
<b>Analytical Tools</b>	Trend Analysis and Ratio Analysis may be used to identify any abnormal trends and changes.
<b>Digital Techniques</b>	Digital investigations are complex techniques and require support from trained digital investigators. Digital techniques comprise of close scrutiny of relevant emails, accounting records, phone logs etc. Before applying digital techniques like obtaining data from email etc. the forensic auditor should take appropriate legal advice so that it doesn't amount to invasion of privacy.
<b>CAATs</b>	CAATs known as Computer-assisted audit techniques are computer programs that the auditors use as part of the audit procedures to process data of audit significance contained in a client's information systems, without depending on him.
<b>System analysis</b>	To examine the systems in place and identifying any weaknesses that could be opportunities for the fraudsters.
<b>Common Software Tool</b>	Common Software Tools like spreadsheets (MS Excel), RDBMS (MS Access) and Report writers (Crystal reports) are widely accepted due to their instant availability and lower costs.
<b>Data Mining Techniques</b>	It is a set of assisted techniques designed to automatically mine large volumes of data for new, hidden or unexpected information or patterns.

### Forensic Audit Reports

#### Factors to be considered

- Nature of business of the entity.
- Nature of subject or aspect examined.
- Persons for whom the report is intended.
- Purpose for which the report is prepared
- Management attitude, directives and needs.
- Approach and calibre of Forensic auditor.
- Extent of details required by management and persons for whom report is prepared.

#### Contents of Forensic Audit Report

- Title of the Report**
- Executive Summary**
- Background of Engagement**
  - Origin
  - Objectives of Engagement
  - Proposed Outputs of the Assignment
  - Implementation Approaches
- Analysis of the Risks Involved**
  - Internal Environment Risks
  - External Environment Risks
  - Political and Legal Scenario
  - Risks from Customers, Suppliers and Competitors etc.
  - Business Process and Human Resources Management
  - Market, Operational and Technological Risks
  - Others
- Evidence of Risk Events**
- Analysis and Findings**
- Audit Recommendations**
  - Logical Framework Approach
  - Preconditions and Risks
- Implementation of Recommendations**
  - Budget Considerations
  - Stakeholders to be Engaged
- List of Annexures**